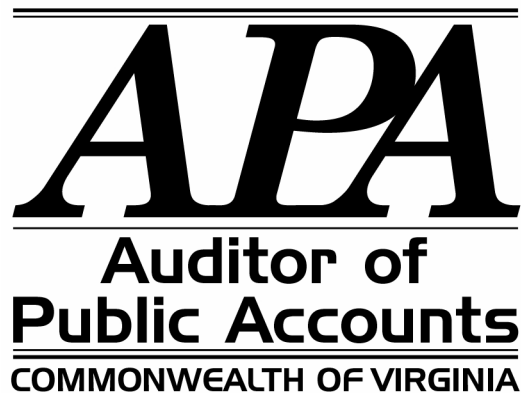


**REPORT TO THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION**

**FOR THE QUARTER
JANUARY 1, 2004 TO MARCH 31, 2004**



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April 8, 2004

The Honorable Lacey E. Putney, Vice-Chairman
and
Members, Joint Legislative Audit and Review Commission
General Assembly Building
Capitol Square
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period January 1, 2004 through March 31, 2004.

The *Executive Summary* includes reports that may be of special interest to the members of the Commission. We have included a report in the summary for the sole purpose of bringing to your attention matters of significance. These summaries do not include all findings within a report or all reports with findings.

The *Summary of Reports Issued* lists all reports released during the quarter and shows reports that have audit findings.

We will be happy to provide you, at your request, any reports in their entirety or you can find all reports listed in this document at our website <http://www.apa.state.va.us/reports.htm>. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

WJK:aom

EXECUTIVE SUMMARY

COMMONWEALTH'S PERFORMANCE MEASURES REPORTED TO THE DEPARTMENT OF PLANNING AND BUDGET AND THE STATE COUNCIL OF HIGHER EDUCATION

Overall, performance measures information on the Virginia Results Internet website (Virginia Results) is complete and accurate. Virginia Results, maintained by the Department of Planning and Budget, contains strategic planning and performance measures information for every executive branch agency. This information is accessible to the general public as well as those in state government.

While the performance measures information currently reported on Virginia Results is reliable, there are several issues that need to be addressed to further improve the accuracy and relevance of the information.

- ✓ All agencies must follow Planning and Budget's instructions for entering and reporting information.
- ✓ Planning and Budget needs to continue to improve their procedures for reviewing the data. There are many measures that are not clearly defined and could not be easily understood by an average user.
- ✓ Planning and Budget should revisit their policies over target performance information reported on Virginia Results. We recommend that Planning and Budget require target performance information for all measures reported on Virginia Results.
- ✓ Another area requiring examination is Planning and Budget's responsibility for reviewing changes to existing performance measures. Currently, agencies can modify, add, or delete measures without review.
- ✓ The Governor's Office needs to clarify the relationship between the performance measures in executive agreements and the performance measures reported on Virginia Results.

Overall, Virginia Results is a good tool for communicating government results to the general public; however, there are several related issues that must be addressed if performance management is going to be fully implemented in Virginia. We reported these issues in our previous report and reiterate them in this report. The Commonwealth needs to examine whether agencies have selected the most appropriate measures for evaluating the effectiveness of programs, activities, and agencies in state government. This includes identifying the specific users of the information, as well as how to use the information. Our review of measures found that many measures reported on Virginia Results are not significant or relevant to agency goals and programs. Without addressing and resolving these issues, the Commonwealth will continue to allocate resources to collecting and reporting performance information that may have limited use.

Additionally, there has not been an implementation of this process, on even a limited basis, to fund either new or existing programs or activities using a performance management funding model. A successful performance management system requires leadership and active participation by both the executive and legislative branches. Additionally, it requires a clear definition of the roles and responsibilities in the performance management process. To start this process, the Commonwealth needs to identify and use a performance management process to fund a limited number of programs or activities to show how this process would work.

DEPARTMENT OF MEDICAL ASSISTANCE SERVICES

The Department of Medical Assistance Services (DMAS) requested the Auditor of Public Accounts (Auditor) to perform a vulnerability assessment and network penetration test. DMAS requested that the Auditor use its technical staff experienced in security control work and operations to perform an independent assessment of the risks the systems face (vulnerability assessment), and a test of the operating effectiveness of the controls (penetration test). We conducted the review as of January 22, 2004 and examined whether information systems management and administration had reasonably assessed risk, and that the controls placed into operation were effective in mitigating the assessed risks.

The Auditors used a variety of scanning software and techniques during the vulnerability and penetration test. Outside of the scope of this engagement were “social engineering” attacks. Social engineering attacks include posing as technical support staff to elicit responses from users designed to aid in network penetration, or searching desks to reveal notes with passwords and user IDs. This type of test typically identifies significant security weaknesses. However, we did not perform this type of test work because of the effect that these tests can have on employee confidentiality, property rights, and the relationship between users and information systems staff.

This project was limited to the DMAS network. This test work did not include any information housed for DMAS at the Virginia Information Technology Agency (VITA), or any of the information housed at First Health, DMAS’ service provider for processing Medicare claims. This engagement did not have a goal of identifying all of the potential weakness that the systems could have been subject to.

Based on our assessment of the risks the systems face and the tests of the operating effectiveness of the controls developed by DMAS to alleviate those risks, overall information security controls in place at the time of the testing appear sufficient to protect critical and sensitive information. However, we noted certain areas where improvements can be made to enhance systems security. We have provided management of DMAS the details of our findings and recommendations in a separate report that is exempted from public disclosure in accordance with Section 2.2-3705 (a) 45 of the Code of Virginia. This provision allows for the exemption from disclosure information that describes the design, function, operation, or access control features of any security system.

DMAS the details of our findings and recommendations in a separate report that is exempted from public disclosure in accordance with Section 2.2-3705 (a) 45 of the Code of Virginia. This provision allows for the exemption from disclosure information that describes the design, function, operation, or access control features of any security system.

We have not included management’s response in this report because the information included in their response is also exempted from public disclosure in accordance with Section 2.2-3705 (a) 45 of the Code of Virginia. However, management generally concurred with our recommendations and agreed to take appropriate corrective action.

DEPARTMENT OF TRANSPORTATION

We found that Transportation has not assigned central responsibility for and does not have adequate internal controls surrounding the recording and reporting of capital assets. In addition, Transportation has not developed a method to capture and capitalize the costs of improvements other than buildings for existing assets

so that they can capitalize this information by 2006. Transportation's Equipment Management System is antiquated and inefficient in providing financial data for the majority of Transportation's equipment. Transportation has not taken a complete inventory of its computer equipment and updated the Fixed Asset Accounting and Control System since fiscal year 2000. Transportation did not properly perform inventories over major equipment. We included some of these same issues in last year's report. We believe the controls surrounding capital assets are inadequate and that these issues are so pervasive that they represent a material weakness in Transportation's internal controls.

We also found weaknesses in internal controls surrounding materials and supplies inventory, disclosures for future lease payments and contractual commitments, user access to information systems, written agreements with other agencies to use Transportation's information systems, and monitoring of federal funds passed through to localities.

Transportation has begun a re-organization of its financial operations and hired a consultant to also assist management in addressing the findings related to capital asset management. To resolve these issues, management will need long term solutions, which will take time to implement.

REVIEW OF THE DEPARTMENT OF GENERAL SERVICES AND SILVER OAK SOLUTIONS SPEND ANALYSIS AND PROCUREMENT CONSULTING SERVICES

We reviewed the financing plan for spend analysis and procurement consulting services. We have concerns about the initial method of funding for this project.

FUNDING PURPOSE

The Secretaries of Administration and Finance authorized General Services to borrow and use eVA funding to pay the contract with Silver Oak. Subsequently, General Services obligated the Commonwealth for almost \$5 million without first obtaining additional appropriations for the spend analysis and procurement consulting services. As a result of this issue, we have made the following recommendations.

- The General Assembly may wish to examine the authority of agencies and institutions to implement programs or initiatives for which there has not been a specific appropriation or authority to borrow funding from the State Treasury. The General Assembly may need to consider whether there is a need to change the Appropriations Act to clarify the circumstances under which such actions can occur.

House Bill 29 proposes amendments to the fiscal year 2004 budget, including language for a \$5 million treasury loan to support Virginia Partners in Procurement spend management effort.

- If the Governor and General Assembly wish to continue the term of the proposed loan beyond the current fiscal year to support the Virginia Partners in Procurement spend management effort, the proposed amendments to the Budget Bill contained in House Bill 29, as introduced, should be repeated in House Bill 30, which is the 2004-2006 Biennium Budget Bill.

OTHER ISSUES

- The Procurement Appeals Board found flaws in both the scoring methodology and negotiations process for the office supplies procurement, which may affect the financing plan and cost reduction calculations.
- General Services and Virginia Partners in Procurement are each using different scenarios to project future activity of the spend management effort. General Services is using a more conservative scenario in developing the financing plan, while Virginia Partners in Procurement is using an almost total compliance scenario to calculate cost reductions. Based on the total compliance scenario, Virginia Partners in Procurement is communicating that the spend analysis project will result in \$25 million in cost reductions. However, based on the same methodology used to compile the financing plan, total cost reduction may only amount to \$16 million. Further, of the \$16 million only \$7.6 million and \$4.8 million will be directly available to agencies and institutions.

VIRGINIA INFORMATION TECHNOLOGIES AGENCY

For Virginia Information Technologies Agency (VITA) to continue its operations, it is essential that the organization have appropriate methodologies to set rates, bill services, and account for both revenues and expenses of operations. Further, VITA needs to have a mechanism to control and monitor service costs as the agency transfers take place over the next eighteen months.

Successfully transitioning VITA requires the creation and maintenance of a well-defined business plan. VITA's business plan consists of a variety of documents such as the operating plan, service delivery customer workbook, and a consultant's report. However, we also found that VITA's business plan documents do not provide many of the characteristics found in a well-written business plan.

VITA's business plan documents are insufficient and do not meet best practices. However, for VITA to complete a business plan for all operations is neither practical nor feasible at this point. However, continuing to operate without a usable business plan is also neither practical nor feasible.

Since the legacy operations have existing policies and procedures, we would recommend that VITA's senior management and Chief Information Officer (CIO) complete a business plan for all of the new services. The report contains the details of the business plan requirements.

The Secretary of Technology has taken an active role in the early start up of VITA, and now the Board needs to also develop and build a working relationship with VITA management, including the permanent CIO when hired. The Board has an independent role within State government and a number of issues in this report will require that both the Board and VITA management work together to find the best solutions. To elicit the Board's active participation will require a shift in how VITA management interacts with the Board.

Effective January 1, 2004, the Board appointed the Deputy CIO as acting until a permanent CIO is hired. To begin developing a working relationship, we recommend that the Board meet with the acting CIO to

explain its expectations, including how to resolve the issues contained within this report. We recommend that the Board conduct a similar meeting with the permanent CIO once an individual is hired.

The Board should require that VITA management address our report findings, develop recommended policies and procedures, and complete a business plan for new services. The new services business plan should describe the development strategy VITA intends to use to implement new services and cost savings initiatives. With the business plan complete, the CIO and VITA management should present this information to the Board to gain their concurrence.

SUMMARY OF REPORTS ISSUED

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period January 1, 2004 through March 31, 2004. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

State Agencies and Institutions

Executive Departments

Administration

Local Government Investment Pool for the year ended June 30, 2003

Commerce and Trade

Virginia College Building Authority for the year ended June 30, 2003

Virginia Employment Commission for the year ended June 30, 2003*

Virginia Public Building Authority for the year ended June 30, 2003

Virginia Public School Authority for the year ended June 30, 2003

Virginia Removal or Rehabilitation of Derelict Structures Fund for the year ended June 30, 2003

Education

Department of Education Including Direct Aid to Public Education, the Virginia Schools for the Deaf and Blind, and the Virginia Schools for the Deaf and Blind Foundation for the year ended June 30, 2003

Colleges and Universities

Central Virginia Community College for the year ended June 30, 2003

Blue Ridge Community College for the year ended June 30, 2003

Dabney S. Lancaster Community College for the year ended June 30, 2003

University of Virginia for the year ended June 30, 2003

University of Virginia, Intercollegiate Athletic Programs for the year ended June 30, 2003

University of Virginia Medical Center for the years ended June 30, 2003 and 2002

Virginia Commonwealth University for the year ended June 30, 2003*

Virginia Commonwealth University, Intercollegiate Athletic Programs for the year ended June 30, 2003

WNSB-FM Radio Station (A Public Telecommunications Entity Licensed to Norfolk State University) for the year ended June 30, 2003

Finance

Department of Accounts for the year ended June 30, 2003*

Department of Taxation for the year ended June 30, 2003*

Department of Treasury for the year ended June 30, 2003*

Health and Human Resources

Virginia Department of Health for the year ended June 30, 2003*

Department of Medical Assistance Services for the year ended June 30, 2003*

Department of Mental Health, Mental Retardation, and Substance Abuse Services
for the year ended June 30, 2003

Department of Social Services for the year ended June 30, 2003*

Virginia Tobacco Settlement Foundation for the year ended June 30, 2003

Natural Resources

Department of Environmental Quality for the year ended June 30, 2003*

Public Safety

Wireless E-911 Services Board for the year ended June 30, 2003

Technology

Innovation Technology Authority for the year ended June 30, 2003

Innovation Technology Authority, including its blended component unit (the Center for
Innovative Technology), for the year ended June 30, 2003

Transportation

Department of Transportation for the year ended June 30, 2003*

Special Reports

Department of Medical Assistance Services-Network Vulnerability Assessment and
Penetration Test Report dated March 2004*

Report to the Joint Legislative Audit and Review Commission for the quarter October 1, 2003
through December 31, 2003

Review of Performance Measures for the fiscal year ended June 30, 2003*

Spend Analysis and Procurement Consulting Services dated January 2004*

Special Reports (continued)

Summary Report of Local Government Audit Findings: Enhanced 911 Special
Tax Funds dated February 2, 2004*
Virginia Information Technologies Agency dated January 2004*

Clerks of the Circuit Courts

Cities:

City of Bristol for the period May 1, 2002 through December 31, 2003
City of Buena Vista for the period December 31, 2003
City of Chesapeake for the period December 31, 2003
City of Danville for the period April 1, 2002 through September 30, 2003
City of Hopewell for the period October 1, 2002 through December 31, 2003
City of Roanoke for the period October 1, 2002 through December 31, 2003
City of Salem for the period October 1, 2002 through September 30, 2003*
City of Suffolk for the period December 31, 2003
City of Virginia Beach for the period December 31, 2003
City of Waynesboro for the period April 1, 2003 through December 31, 2003
City of Winchester for the period October 1, 2002 through September 30, 2003

Counties:

County of Accomack for the period April 1, 2002 through June 30, 2003*
County of Botetourt for the period January 1, 2003 through December 31, 2003
County of Culpeper for the period October 1, 2002 through December 31, 2003
County of Dickenson for the period January 1, 2003 through December 31, 2003
County of Dinwiddie for the period October 1, 2002 through September 30, 2003
County of Franklin for the period October 1, 2002 through September 30, 2003*
County of Grayson for the period October 1, 2002 through September 30, 2003*
County of Hanover for the period January 1, 2003 through December 31, 2003
County of Lancaster for the period October 1, 2002 through December 31, 2003
County of Lee for the period April 1, 2003 through December 31, 2003
County of Madison for the period October 1, 2002 through December 31, 2003*
County of Prince Edward for the period April 1, 2002 through September 30, 2003
County of Prince William for the period October 1, 2002 through December 31, 2003*
County of Roanoke for the period October 1, 2002 through December 31, 2003
County of Shenandoah for the period October 1, 2002 through September 30, 2003
County of Tazewell for the period January 1, 2003 through December 31, 2003
County of Warren for the period October 1, 2002 through September 30, 2003
County of Washington for the period October 1, 2002 through January 14, 2004*